VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 343 May, 1989

Business in Virginia April, 1989

Among our seven "early" indicators for April, four climbed compared to April of 1987 and three declined, yielding the same up-to-down ratio as in March.

The three April negatives were the highly erratic bank debits, down 15.1 percent; new car registrations, off 7.8 percent; and our sample of retail stores, with sales down 2.8 percent. Car sales in Virginia declined in February and March as well, and the cumulative 1989 drop through April now is 12.0 percent. Virginians definitely have pulled back in their purchases of this "big-ticket" durable good, and no reversal seems imminent—look for May sales also to be below last year.

The retail sales decrease primarily is the lagged impact of an early Easter that sent March sales soaring, shifting some of what would have been spent in April forward into March. The March total retail figures from the Department of Taxation now are available (last column, Table II), showing a 13.4 percent statewide sales growth. That confirms the March growth (5.0 percent per store) reported for our sample in last month's Report. When total retail sales for April are reported, they most likely will show a very small gain, if any.

The other positive April indicators are more encouraging. Building permits statewide were up 13.7 percent, in dollar value. That brings the cumulative January-April advance to 4.3 percent, about in line with inflation, so Virginia's building boom has not turned down yet. Seven of our seventeen covered areas have experienced lower cumulative levels than last year, but that still is less than a majority, in number of areas and dollar contracts. Construction will ease, but recent figures do not signal a precipitous decline statewide.

Electricity and water consumption both advanced a little more than six percent in April. That large increase, occurring for both, cannot be due solely to rising household activity. Virginia businesses must be producing at a significantly higher volume, using more power and water in the process.

More production and construction, coupled with a 6.9 percent January-March increase in total retail sales, sustained very high job growth during the first quarter, averaging 4.4 percent for January-March after holding at 4.3 percent in March. Job growth will slow to below 4 percent this summer. But as a reliable and important coincident economic indicator, the payroll employment strength to date in 1988 is dramatic evidence of a sustained high momentum in the Virginia economy. RLP

Virginia Retail Sales in 1988

The Virginia Department of Taxation recently released their Taxable Sales Annual Report, 1988, showing retail sales by category, and by city and county. This report always is our most comprehensive source of retail sales information for Virginia. Bear in mind, though, the data are based on the Virginia Retail Sales and Use Tax revenues, so some major retail categories are excluded, such as prescription drugs, not taxed; and motor vehicles and gasoline, taxed separately. Given that caveat, in the following analysis we will treat the Department of Taxation data as the measure of Virginia retail sales.

Chart I

Nine Selected Business & Economic Indicators Percentage Change

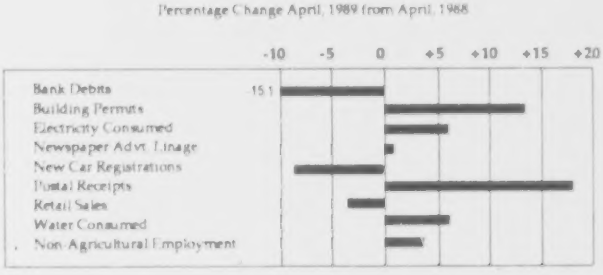
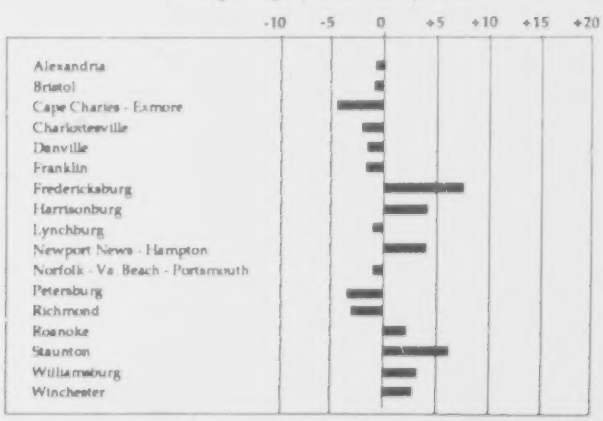


Chart II

City Indices



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I April 1986

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	MARCH NON-AGRICULTURAL EMPLOYMENT #	WATER CONSUMED	SAMPLE RETAIL SALES †	POSTAL RECEIPTS
The State		291.0	6.7	152.3	116.3	146.8	148.9	67.5	149.2	337.9
Alexandria	158.4	495.4	1493.9	171.1	N.A.	119.7	207.3	98.5	168.2	N.A.
Bristol	126.8	N.A.	58.5	114.5	77.3	82.5	120.1	95.0	116.3	313.6
Cape Charles - Exmore	145.3	N.A.	120.8	135.1	N.A.	74.8	N.A.	N.A.	100.6	364.0
Charlottesville	203.5	134.7	139.1	142.9	N.A.	106.9	114.6	130.7	254.5	384.0
Danville	133.5	N.A.	113.3	113.5	117.0	86.7	103.2	96.0	N.A.	250.3
Franklin	125.5	N.A.	142.8	111.1	114.9	83.6	N.A.	85.0	109.2	326.6
Fredericksburg	163.4	266.5	238.5	N.A.	179.6	162.6	N.A.	94.4	307.4	1838.3
Harrisonburg	209.6	383.4	148.2	N.A.	171.5	87.1	N.A.	159.1	224.8	365.4
Lynchburg	252.0	386.8	234.3	132.1	N.A.	92.5	100.1	123.7	165.7	1290.1
Newport News - Hampton	134.1	N.A.	196.7	127.6	38.0	79.2	141.9	116.6	185.4	N.A.
Norfolk - Va. Beach - Portsmouth	152.9	102.4	137.5	158.8		123.9		N.A.	176.3	N.A.
Petersburg	142.9	105.0	90.8	N.A.	N.A.	62.8	137.7	116.2	170.4	258.2
Richmond	176.5	356.8	139.5	170.6	127.0	107.6		103.9	160.1	N.A.
Roanoke	180.7	360.5	38.4	116.8	158.6	90.7	125.9	105.5	261.7	435.8
Staunton	153.3	233.0	225.2	N.A.	97.5	81.1	N.A.	N.A.	149.9	241.0
Williamsburg	186.6	194.8	225.2	179.3	N.A.	111.0	N.A.	104.3	160.2	405.4
Winchester	210.2	415.5	158.4	151.3	339.5	129.6	N.A.	N.A.	N.A.	N.A.

TABLE II April 1986

Percentage Change from Same Month Last Year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	MARCH NON-AGRICULTURAL EMPLOYMENT #	WATER CONSUMED	SAMPLE RETAIL SALES †	MARCH TOTAL RETAIL SALES ‡
The State		-15.1	-13.7	6.1	1.1	-7.8	4.3	6.2	-2.8	13.4
Alexandria	0.0	-0.8	349.8	7.1	N.A.	10.6	6.0	-1.8	-4.5	10.9
Bristol	1.4	N.A.	-45.9	2.1	9.0	-21.2	4.4	-12.0	5.0	20.2
Cape Charles - Exmore	5.7	N.A.	49.7	5.1	N.A.	27.6	N.A.	N.A.	6.4	4.6
Charlottesville	2.6	-23.7	-60.9	10.0	N.A.	3.0	0.3	6.7	-3.0	15.7
Danville	1.9	N.A.	76.0	9.9	-6.8	0.4	3.0	5.4	N.A.	-0.3
Franklin	-4.1	N.A.	-9.8	5.0	-7.5	-13.6	N.A.	4.9	-7.2	0.3
Fredericksburg	13.3	22.5	67.3	N.A.	2.4	-10.3	N.A.	24.9	20.7	19.1
Harrisonburg	7.2	41.4	20.4	N.A.	-1.2	-8.0	N.A.	11.6	9.4	20.1
Lynchburg	-0.1	-0.7	44.1	7.8	N.A.	-17.8	1.8	4.5	-1.7	7.9
Newport News - Hampton	1.3	N.A.	32.7	1.1	2.4	-4.9	0.8	16.6	-3.5	9.4
Norfolk - Va. Beach - Portsmouth	1.5	1.7	18.6	2.7		-17.6		N.A.	-6.0	6.1
Petersburg	1.6	7.9	-58.8	N.A.	N.A.	-11.2	2.8	10.6	-3.8	20.6
Richmond	0.0	-21.0	-22.2	8.3	2.8	-18.7		1.5	-3.8	14.7
Roanoke	1.4	-0.1	-62.8	8.3	-1.4	2.4	1.6	4.6	2.6	5.2
Staunton	5.4	66.0	24.9	N.A.	2.8	9.7	N.A.	N.A.	9.5	11.0
Williamsburg	5.0	23.6	1,302.0	6.1	N.A.	-6.4	N.A.	2.9	1.5	28.1
Winchester	3.3	1.8	135.9	6.8	3.9	-6.8	N.A.	N.A.	-2.0	11.3

TABLE III April 1986

Percentage Change January - April from Same Period Last Year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	JAN - MAR NON-AGRICULTURAL EMPLOYMENT #	WATER CONSUMED	SAMPLE RETAIL SALES †	JAN - MAR TOTAL RETAIL SALES ‡
The State		-8.5	4.3	2.3	-1.8	-12.0	4.4	0.0	0.6	6.9
Alexandria	-0.2	7.8	58.9	3.6	N.A.	-10.4	6.2	2.3	-3.0	6.0
Bristol	-0.1	N.A.	9.0	1.8	3.3	-11.8	3.8	-13.1	1.8	13.0
Cape Charles - Exmore	-4.4	N.A.	42.6	2.8	N.A.	-26.6	N.A.	N.A.	-2.5	5.2
Charlottesville	-1.9	-22.6	-24.1	2.8	N.A.	-44.8	0.2	8.1	3.6	7.7
Danville	-1.3	N.A.	-34.6	3.0	-9.2	-3.5	3.3	-1.4	N.A.	0.2
Franklin	-1.4	N.A.	-57.5	1.9	0.0	0.4	N.A.	-1.1	-4.6	1.8
Fredericksburg	7.4	20.9	32.8	N.A.	1.1	-5.1	N.A.	16.1	10.6	7.6
Harrisonburg	4.0	35.1	111.5	N.A.	-4.6	-15.9	N.A.	3.7	10.2	13.9
Lynchburg	-0.2	8.4	-87.1	1.9	N.A.	-18.9	1.7	6.7	0.6	5.1
Newport News - Hampton	3.8	N.A.	-29.2	1.2	0.4	-14.8	1.2	23.0	3.1	8.6
Norfolk - Va. Beach - Portsmouth	-0.9	-16.0	-9.4	-1.6		-3.7		N.A.	1.9	2.4
Petersburg	-2.7	-46.1	-40.2	N.A.	N.A.	-31.4	3.1	0.7	0.4	7.8
Richmond	-2.3	-8.7	18.7	3.3	-1.7	-20.6		0.5	-0.6	-3.2
Roanoke	-2.3	4.2	-18.0	3.0	-4.0	-2.9	1.7	17.0	0.5	4.3
Staunton	6.4	21.9	50.5	N.A.	0.7	-19.2	N.A.	N.A.	14.2	14.3
Williamsburg	2.8	15.8	113.3	2.5	N.A.	-6.3	N.A.	2.6	3.9	9.3
Winchester	2.6	9.8	282.4	4.1	3.6	-9.4	N.A.	N.A.	N.A.	12.0

* Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
# Virginia Employment Commission data which lags behind current reports.
† Preliminary data based on a survey sample.
‡ Total sales based on sales tax information which lags behind current reports.
⊃ Only total MSA data are available for these areas.

N.A. – Not Available
0.0. – No Change

The year 1987 was a seller's market for most Virginia retailers. Total retail sales rose 12.2 percent, over $4 billion. That year we also added 3,246 new retail establishments—a 2.5 percent increase. However, the net result was a very strong 9.5 percent average gain in sales per establishment. Those percentages are based on current dollar sales, not adjusted for inflation. The 1987 inflation rate for commodities (thus excluding services) was 3.3 percent, so deflating with that measure reveals the real volume of goods sold per establishment climbed 6.0 percent in 1987.

In contrast, 1988 became a buyer's market at many Virginia retail establishments, the product of slower growth in retail demand with an accelerating rate of new store additions. The supply of retailers simply outran demand. That imbalance initially became evident when the full first quarter 1988 data were released, and we alerted our readers to the rising retail competition in the June, July, and September issues (for example, from the June 1988 issue: "...while total retail demand has grown by 5.4 percent, that demand increase has been at least matched, if not exceeded, in most cases by the addition of new retail facilities"). The imbalance persisted for the full calendar year, in spite of a strong Christmas season.

Virginia retail sales in 1988 reached $39.09 billion, up $2.05 billion or 5.6 percent from the 1987 level. An impressive total, but an overall growth rate less than one-half of the 1987 rate. At the same time 4,662 net new retail establishments opened, bringing the total to 139,080, an increase of 3.5 percent over 1987.

Adding 5.6 percent in dollar sales with a 3.5 percent addition to stores means sales per store in 1988 rose only 2.0 percent. But, inflation in commodity (physical goods) prices during 1988 was 3.5 percent. A 2.0 percent gain in sales per establishment when price increases averaged 3.5 percent points to a decrease of 1.4 percent in the physical volume of goods sold per store in Virginia. That is why we say an imbalance existed in 1988—we cannot continue to increase the number of stores at a more rapid pace than the real growth in demand, pushing down the real volume per store. Sooner or later the net growth in stores will move in line with the current, and future, more modest growth in retail demand, either from a slower pace in new construction, more closings of existing stores, or both.

On the consumer side, Virginia households did bring their retail buying more in line with their income in 1988. The total personal income of Virginia residents rose 8.5 percent last year, while retail sales grew by only 5.6 percent. Virginians apparently behaved like the average household nationwide, increasing their savings in 1988 after spending very freely in 1987.

Total retail sales are not just to Virginians, since tourism is big business in the Commonwealth. However, only about $3.0 billion of out-of-state visitor spending in 1987 was in the categories covered by the Virginia retail sales tax (since gasoline, admissions and most services are excluded), about 8.1 percent of the $37.03 billion total taxed sales. Therefore Virginians, at home and traveling in-state, accounted for almost 92 percent of the total 1987 retail sales, and at least that percent in 1988, permitting us to attribute the changes in retail spending generally to Virginians' behavior.

We will briefly examine where Virginians spend their money, looking at retail sales by type of store. The Department of Taxation sorts the stores into 56 individual categories. Ten of those are "other" or miscellaneous categories covering a motley assortment of dealers, and we removed them from the analysis (for those familiar with the data, categories 9, 19, 29, 39, 49, 59, 69, 79, 89, and 00). The remaining 46 categories we ranked by total sales, and the top ten categories are shown in Table IV, along with information on the number of establishments, sales per store, and growth rates.

These top ten retail categories account for 62.3 percent of Virginia retail buying, almost two-thirds of the sales taxed under Virginia's retail sales tax (keep in mind the exclusions noted earlier). As a group, these categories of stores recorded a 6.3 percent gain in total 1988 sales, better than the Virginia overall rise of 5.6 percent. The group of ten also realized a small (0.9 percent) increase in real volume per store even though 4 of the 6 categories experienced declines.

The top ten list reaffirms the dominance of food retailers. Chain groceries, non-chain groceries, and restaurants are three of the top five types of retailers, accounting for $10.2 billion in 1988 sales, 30.6 percent of the state total. Furthermore, retail spending at chain groceries and restaurants has been growing rapidly. The rapid population growth in recent years has been a boon to both types of retailers. Both also have benefitted, but restaurants more so, from the strong rise in the percent of the adult Virginia population at work—more Virginians are away from home more hours per week than ever before.

The restaurant business, though, has become even more competitive due to the high growth in new establishments. Real (adjusted for a 3.5 percent commodity inflation) sales per restaurant showed a negligible 0.3 percent rise in 1988. Groceries were a different story. While the generally smaller non-chain stores have declined in numbers and real volume, a drop in chain grocery stores coupled with the larger size of new stores and growing total sales produced a spectacular growth in the real volume per chain grocery.

Clothing stores achieved double-digit growth in 1988 sales, up 14.2 percent. Even with an almost 6 percent addition to store numbers, real sales per store were up 4.4 percent.

Among the top ten categories, only the one designated department and discount stores recorded a decrease in total dollar sales. Furthermore, even with an ongoing decline in the number of such stores, especially department stores, the 1988 real volume per store fell 2.5 percent in this category.

The continuing building boom in 1988 sustained total sales growth for building material retailers, yielding a modest real increase per store. However, that boom failed to maintain high growth for furniture sales—that sector's total gain for the year was 3.2 percent. With the number of stores jumping by 6.0 percent, the real volume per store declined by 5.9 percent—there must be some very unhappy furniture dealers.

Hotels and motels also saw modest gains in the lodging industry. Coupled with establishment growth of 1.8 percent, the result per hotel/motel was a mild decrease in real sales volume.

In sum, Virginia's retail sales growth slowed dramatically in 1988. Rates of growth, in sales and stores, varied substantially across retail categories. However the continued high growth in the number of stores meant a decline in the real sales volume, for many types of retailers as well as the average Virginia retail establishment. RLP

TABLE IV

Virginia Retail Sales, 1988

	1988 Sales	'87-'88 % Change Sales	1988 Estab.	'87-'88 % Change Estab.	Sales Per Estab.	% Change Sales Per Estab.	% Change Real Sales Per Estab.
TOTAL RETAIL SALES	$39,086,951,359	5.5%	139,080	3.5%	$281,039	2.0%	-1.4%
TOP TEN RETAIL CATEGORIES							
24-Groceries, etc., Chain	$6,000,468,520	11.0%	1,685	-7.4%	$3,561,109	19.9%	15.9%
27-Restaurants, Drive-Ins, etc.	3,959,888,007	7.2%	12,168	3.3%	325,435	3.8%	0.3%
40-Dep't. & Discount Stores	3,056,164,494	-0.9%	523	-1.9%	5,843,527	1.0%	-2.5%
50-Building Materials, Lumber, Stone, etc.	2,909,263,832	7.2%	2,302	2.3%	1,263,798	4.7%	1.2%
25-Groceries, etc., Non-chain	2,004,393,392	0.7%	5,846	-2.0%	342,866	2.7%	-0.7%
1- Clothing-Men, Women, Children	1,542,241,335	14.2%	4,438	5.7%	347,508	8.0%	4.4%
90-Hotels, Motels, Camps, etc.	1,525,820,023	4.0%	1,859	1.8%	820,775	2.2%	-1.3%
41-Dry Goods & Variety Stores	1,254,945,757	5.5%	1,254	-2.0%	1,000,754	7.6%	4.0%
30-Furniture, Floor Coverings, etc.	1,190,159,299	3.2%	5,559	6.0%	214,096	-2.6%	-5.9%
10-Automotive Accessories, Parts & Tires	895,006,750	5.2%	3,532	-1.3%	253,399	6.7%	3.0%
Sum, Top Ten Categories	24,338,351,409	6.3%	39,166	1.8%	621,415	4.4%	0.9%

Source: Virginia Department of Taxation Data

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